



RUCO's Mission

By Pat Quinn
Director
Arizona's Residential Utility Consumer Office

The Residential Utility Consumer Office – RUCO – was created by the Legislature in 1983 to be a watchdog on behalf of all Arizona utility ratepayers.

Our mission is specific and focused.

Unlike the Corporation Commission, which must also consider a utility's interest in earning a fair profit, RUCO's sole purpose is to defend the interests of the Arizona ratepayer whenever a rate-related issue involving a public service utility is brought before the Commission.

That's why RUCO is vigorously opposing what the Commission did in a recent 3-2 decision. That unfortunate action, led by Commissioner Susan Bitter Smith, granted Arizona Water Company both a higher return and an accounting mechanism – called a System Improvement Benefit Charge ("SIB") – for exactly the same purpose, ostensibly to address the company's need to replace its aging infrastructure.

The result is ratepayers in affected areas will be paying twice for the same infrastructure replacement.

In fact, some ratepayers are unlikely to see any benefits, because the infrastructure upgrades contemplated in documents filed by the company are not even included in all areas.

Stated another way, not only will ratepayers be paying twice for the same infrastructure upgrades, they could be paying for upgrades in areas where they don't live.

The Arizona Water Company trivializes the fact that their customers will see 82 cents per month added to their average bill in Bisbee and Sierra Vista. However, in all areas this charge could grow to \$3 by their next rate case in three years, according to the company's own plans filed at the Commission.

The SIB mechanism allows the Company to have a near automatic path to increase rates between rate cases. In return for all the safeguards given up with the SIB, ratepayers receive a paltry 5 percent "efficiency credit." So, for every \$1 increase in revenues Arizona Water Company pockets, its customers receive only 5 cents in savings – hardly a fair and equitable deal for ratepayers.

In fact, just as RUCO predicted, this past Tuesday on a 3-1 vote (Commissioner Brenda Burns opposed, and Commissioner Bob Burns absent for the vote) the Commission voted to approve

the Company's application for authority to implement the first System Improvement Benefits Surcharge in its Cochise Division (Bisbee and Sierra Vista).

In this case there was a real question as to whether the company was properly maintaining its infrastructure over the years. This was particularly relevant since this company has been paying yearly dividends of approximately \$4 million.

If, as the company suggests, "replacing aging and failing water infrastructure is critical," why did the company neglect investing a portion of those profits into their system?

Equally puzzling, why would Corporation Commissioners Bob Stump and Gary Pierce join Susan Bitter Smith in rewarding the company with a rate-enhancing mechanism under these circumstances?

The Arizona Water Company says it is providing customers with clean, reliable drinking water.

But, isn't that what it's supposed to do?

They shouldn't get extra credit for simply fulfilling an obligation. It's called a regulatory compact for a reason, and that's why we allow monopolies to exist.

In this case, Administrative Law Judge Sarah N. Harping in her recommended opinion and order to the Commission observed that Arizona Water Company, "was in a position at least to ameliorate this situation through making different choices in the past regarding the use of its revenues."

Judge Harping went on to say, "Additionally, we cannot ignore that although AWC attributes its inability to make greater capital expenditures to the Commission's not having authorized sufficient rate increases over a number of years, AWC's Board has not found AWC's financial circumstances to be so dire that several million dollars in shareholder dividends could not be paid each year. We note that two years of shareholder dividends at the 2010 level would nearly cover the estimated costs of the three-year plan for Superstition, Oracle, and Bisbee."

The Arizona Water Company is suggesting that I am disingenuous in my presentation of the facts. The company asks the public to simply accept its word, rather than the word of RUCO, the ratepayer advocate. I'll sum it up this way: Water Company executives report to their shareholders. My job is to protect and inform ratepayers.

The Governor appointed me to lead RUCO – an appointment unanimously confirmed a the Senate Committee – in part because I've been in the utility business for more than 30 years, including running Qwest Communications in Arizona, responsible for overseeing all aspects of the company's operations in the state -- development and management of budgets, marketing, advertising and representation of the company on a local, state and federal level.

So, I know the challenges that utilities – including Arizona Water Company --- face.

But I also know when the ratepayer is getting a bad deal, and that's what's happening now in Bisbee and Sierra Vista and, in the future, in Globe, Miami, Apache Junction, Superior, Oracle, San Manuel, SaddleBrooke Ranch and Winkelman.